

# Inflation Quarterly Review transcript

## Elida Rhenals, portfolio manager

Since the beginning of the year, total inflation has been decelerating at a very fast pace. The main reason is the fall in energy prices. However, what is actually puzzling central banks today is the high level of core inflation.

Core inflation is inflation that excludes volatile components such as energy and food prices, and this one is well above the 2% target. It's actually around 5% in the US, in the UK and in the euro area.

So to fight against this high level of core inflation, central banks have kept on tightening their monetary policy. And as a matter of fact, the Bank of England surprised markets by raising its rates by 50 basis points. We do believe that this additional hike would actually slow down future growth.

So what to do and how to invest in this moment?

We do believe that inflation-linked bonds are an opportunity in this context.

First is the actual level of real yields. Real yields are the rate that you get on top of realized inflation. And for the first time since Lehman, since the great financial crisis, this interest rate is on positive territory.

And that in every market: US, UK and the euro area. So even if inflation decelerates, you're getting a real positive rate. The second argument is that the breakeven rate is too low. It's actually the lowest since the beginning of the year and is at 2%. The breakeven rate of the market-based inflation expectations is pricing zero upside risk over the medium term. The market thinks that the central banks are getting inflation down to target and given the macroeconomic context, we think that this assumption is very optimistic.

So in conclusion, because we have real rates that are extremely high and breakeven rates that are too low, we do believe that inflation-linked bonds of either short term and longer maturities are a great option for the second half of the year.

Source: AXA IM as of July 2023

### Disclaimer

This video is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate London EC2N 4BQ

In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

